IN THE SECURITIES APPELLATE TRIBUNAL
AT MUMBAI

DATED THIS THE 1ST DAY OF SEPTEMBER, 2026

CORAM: Justice P.S. Dinesh Kumar, Presiding Officer
Ms. Meera Swarup, Technical Member
Dr. Dheeraj Bhatnagar, Technical Member

Appeal No.19 of 2025

Acuite Ratings & Research Limited
708, Lodha Supremus,
Lodha iThink Techno Campus,
Kanjur Marg East, Mumbai – 400042. …..Appellant

(By Ms. Shruti Rajan, Advocate with Mr. Vivek Shah and Mr. Paras Taneja, Advocates i/b. Trilegal for the Appellant.)

Securities and Exchange Board of India
Plot No.C/4/A, G Block,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400051, India. …..Respondent

(By Mr. Shiraz Rustomjee, Senior Advocate with Mr. Suraj Chaudhary, Mr. Bhushan Shah, Mr. Abhishek Nair and Ms. Sayali Kshirsagar, Advocates i/b Mansukhlal Hiralal & Co. for the Respondent.)

THIS APPEAL IS FILED UNDER SECTION 15T OF THE SEBI ACT, 1992 TO SET ASIDE THE ORDER DATED NOVEMBER 29, 2024 PASSED BY THE AO, SEBI.

THIS APPEAL HAVING BEEN HEARD AND RESERVED FOR ORDERS ON AUGUST 18, 2026 COMING ON FOR PRONOUNCEMENT OF ORDER THIS DAY, THE TRIBUNAL MADE THE FOLLOWING:

ORDER

Per: Justice P.S. Dinesh Kumar, Presiding Officer

This appeal is directed against order dated 29.11.2024 passed by the AO[1], SEBI[2] imposing penalty of ₹5 Lakhs on the appellant for violation of Regulation 27(1) of SEBI (CRA) Regulations, 1999[3].

2. We have heard Ms. Shruti Rajan, learned Advocate for the appellant and Mr. Shiraz Rustomjee, learned Senior Advocate for the SEBI.

3. Brief facts of the case are, Acuite Rating & Research Limited ('appellant' for short) is a SEBI registered Credit Rating Agency ('CRA' for short). SEBI conducted an on-site inspection for the period between 01.09.2022 and 31.08.2023. The findings of the inspection were communicated to the appellant and appellant filed its reply. SEBI observed that the appellant had violated CRA Regulations and issued an SCN[4] alleging *inter alia*

[1] Adjudicating Officer
[2] Securities and Exchange Board of India
[3] SEBI (Credit Rating Agencies) Regulations, 1999
[4] Show Cause Notice dated 22.04.2024

that the appellant had assigned ratings to securities of eight entities which had borrowed money from appellant's promoter i.e. SIDBI[5] and thus violated Regulation 27(1) of the CRA Regulations. Appellant filed its reply. After adjudication, SEBI has passed the impugned order.

4. Ms. Shruti Rajan, learned Advocate for the appellant submitted that five out of eight entities borrowed money from SIDBI after appellant assigning its ratings. The impugned order is based on an incorrect interpretation of the regulations. According to SEBI, the conditions stipulated in sub-clauses (i), (ii) and (iii) only apply to clause (c) of Regulation 27(1) and the said conditions do not apply to clauses (a) and (b). The word 'or' between sub-regulations (a), (b) and (c) does not preclude the application of sub-clauses (i), (ii) and (iii) in all scenarios. She submitted that the word 'or' is disjunctive and cannot be read as conjunctive.

5. She submitted that the phrase 'these entities' in clause (i) in Regulation 27(1) indicates that restrictions on rating securities apply to borrowers, subsidiaries and associates of the promoter only when common Directors or employees exist.

6. She submitted that SEBI's press release dated 23.06.1999, does not make any distinction between a borrower, subsidiary or associate of promoters if the conditions mentioned therein are satisfied.

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[5] Small Industries Development Bank of India

7. She further submitted that the 72nd Report of the Parliamentary Standing Committee on Finance (2018-19) also states that a CRA should not rate a security issued by its borrower/subsidiary/associate or that of its promoter, only if there are common Chairman, Directors or employees between the CRA and such entities. Therefore, the restrictions outlined in sub-clauses (i), (ii) and (iii) of Regulation 27(1) of the CRA Regulations apply to sub-regulation (a), (b) and (c).

8. She submitted that Regulation 28V mirrors Regulation 27(1) in terms of placing restrictions on the entity rating securities. In the case of Regulation 28V, SEBI has made the restrictions applicable in case of borrowers, subsidiaries and associates. Hence, SEBI's interpretation of Regulation 27(1) is inconsistent with Regulation 28V which also places an embargo from rating under similar circumstances.

9. In reply, Mr. Shiraz Rustomjee, learned Senior Advocate for SEBI submitted that SIDBI holds more than 10% shareholding in the appellant and falls within the definition of a 'promoter' as per Regulation 25(b) of CRA Regulations. He submitted that appellant has admitted that it has rated and assigned grades in respect of eight entities which had admittedly borrowed money from appellant's promoter.

10. He submitted that SEBI, as a Regulator, is the primary authority to interpret and enforce its Regulations. Regulation 27(1) mandates a strict prohibition. The intentional use of semi-

colons (;) and disjunctive word ‘or’ clearly demarcates three independent, disjointed categories of prohibited entities:

a. A borrower of its promoter; or
b. A subsidiary of its promoter; or
c. An associate of its promoter, provided the qualifying criteria in conditions (i) to (iii) are met.

11. He submitted that the Regulation 27(1) is structured in a manner that sub-clauses (a), (b) and (c) are aligned and placed directly below each other whereas, conditions (i) to (iii) are placed below sub-clause (c). This clearly indicates the legislative intent that these additional conditions apply solely to associates of promoter of CRA and not to borrowers or subsidiaries. He further submitted that the phrase ‘credit rating agency and these entities’ under clause (i) in Regulation 27(1) refer to the promoter and its associate. Any other interpretation would run counter to the legislative intent. The language employed in Regulation 27(1) being simple and unambiguous does not warrant any interpretation in the hands of this Tribunal.

12. He submitted that Chapter IV of the CRA Regulations is purposefully titled ‘Restriction on Rating of Securities Issued by Promoters or by Certain Other Persons’, with the primary object of curbing any conflict of interest arising from promoter control. Borrowers and subsidiaries share a direct financial relationship with the promoter or the promoter shall have direct control. In contrast, associates have less direct financial relationship,

necessitating the additional qualifying criteria in (i) to (iii) to establish a conflict.

13. He submitted that when statutory language is clear and unambiguous, literal interpretation must prevail over secondary rules or legislative history. He contended that Parliamentary Standing Committee reports cannot override the plain, unambiguous text of the Regulation. He relied on *CCE, Customs and Service Tax v. Shapoorji Pallonji and Co. (P) Ltd.*[6]

14. He further submitted that chapter IVA relating to ESG[7] ratings is irrelevant. ESG ratings/scorings operate in a different sphere and therefore they are differently worded.

15. He submitted that credit rating is not a one-time exercise but a continuous statutory obligation under Regulations 15(1) and 16(1), mandating CRAs to continuously monitor and periodically review ratings throughout the lifetime of the securities, unless withdrawn, to preserve market integrity and to protect the interest of the investors.

16. We have carefully considered rival contentions and perused the records.

17. Undisputed facts are, appellant has rated eight entities who have borrowed funds from SIDBI which is also appellant's promoter. The point that arises for consideration in this appeal

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[6] (2024) 3 SCC 358
[7] Environmental, Social and Governance

is ***whether restrictions mentioned in sub-clause (i), (ii) and (iii) to Regulation 27(1)(c) are applicable to Regulation 27(1)(a) and (b)?***

18. Regulation 27 of CRA Regulations reads thus:

> *"27. (1) No credit rating agency shall, rate a security issued by an entity, which is;-*
> *(a) a borrower of its promoter; or*
> *(b) a subsidiary of its promoter; or*
> *(c) an associate of its promoter, if*
> *(i) there are common Chairman, Directors between credit rating agency and these entities.*
> *(ii) there are common employees.*
> *(iii) there are common Chairman, Directors, Employees on the rating committee."*

19. According to Mr. Rustomjee, a plain reading of the above Regulations makes it clear that clause (i), (ii) and (iii) are applicable to Regulation 27(1)(c) only. By so interpreting, the AO has held the appellant in violation of the Regulations and imposed penalty.

20. Ms. Shruti Rajan has urged that the interpretation suggested by the SEBI is inconsistent with its stand vis-à-vis Regulation 28V which is a similar or identical provision. To appreciate this contention, we have examined the language employed in Regulation 28V and it reads thus:

"28V. (1) No ESG rating provider shall, rate an issuer or securities of any issuer, which is a borrower of its promoter or a subsidiary of its promoter or an associate of its promoter, if

(a) there are any common Chairpersons, or directors between the ESG rating provider and the borrower or the subsidiary or the associate of the promoter; or

(b) there are common employees between the ESG rating provider and the borrower or the subsidiary or the associate of the promoter."

21. Though it was argued by Mr. Rustomjee that the purpose and intent of Regulation 28V is different from Regulation 27(1), the principle governing the purpose of imposing restriction is one and the same and that is 'conflict of interest'. In both under Regulation 27 and Regulation 28V, it is a CRA who makes the assessment and assigns the credit rating. The following is the comparative table of Regulations 27 and 28V:

Regulation 27 - Securities issued by certain entities, connected with a promoter, or rating agency not to be rated	*Regulation 28 - Entities connected with a promoter or a rating agency not to be rated*
27.(1) No credit rating agency shall rate a security issued by an entity, if that entity is— (a) a borrower of its promoter; or (b) a subsidiary of its promoter; or (c) an associate of its promoter, if (i) there are common Chairman, Directors between credit rating agency and these entities. (ii) there are common employees. (iii) there are common Chairman, Directors, Employees on the rating committee.	*28.(1) No ESG rating provider shall, rate an issuer of securities of any issuer, which is a* ***borrower of its promoter or a subsidiary of its promoter or an associate of its promoter, if—*** *(a) there are any common Chairpersons, or directors between the ESG rating provider and the borrower or the subsidiary or the associate of the promoter; or* *(b) there are common employees between the ESG rating provider and the borrower or the subsidiary or the associate of the promoter.*

22. As noted above, imposing restriction is to avoid conflict of interest. Both Regulation 27 and 28V impose restrictions on a CRA from assigning the ratings. The purpose and intent behind

this restriction is common and that is 'conflict of interest'. SEBI has issued a press release on 23.06.1999 and its relevant portion reads thus:

"Press Release

June 23,1999
Ref.No. PR 135/99

BOARD MEETING ON JUNE 23, 1999

SEBI Board met in Delhi today and the major issues discussed as also the important decisions taken are as follows:
Annual Report of SEBI for the year 1998-99

The Board approved the Annual Report of SEBI for the year 1998-99. As required under the SEBI Act, the Report will be forwarded to the Government for being placed in the Parliament

Draft Regulations for Credit Rating Agencies

In the meeting held on 19.3.99, the Board had approved the Regulations for Credit Rating Agencies (CRAs). Subsequently, SEBI received representations from the CRAs relating to rating of securities of borrowers, associates etc. of promoters of CRAs. These issues were taken up by the Board for consideration today. As consequence of the decision of the Board in this meeting and the earlier meeting, the CRA Regulations would have the following salient features

1. *Promoter of CRA has been defined to mean any person who holds 10% or more of the share capital of a CRA.*

2. *Among the category of promoters eligible to promote CRAs would be "Scheduled Commercial Banks". The other persons eligible to promote CRA are*

    1. public financial institutions
    2. foreign banks operating in India

3. foreign credit rating agencies recognised in the country of their incorporation, having atleast five years experience in rating.
4. Any company or a body corporate, having continuous networth of minimum Rs. 100 cores as per its audited annual accounts for the previous five years prior to filing of the application with the Board for registration.

3. *No CRA shall rate a security issued by its promoter.*

4. *No Chairman, Director or Employee of the promoters shall be a Chairman, Director or Employee of CRA or its rating committee.*

5. CRA cannot rate securities issued by any borrower, subsidiary, an associate of promoters of CRA, if

i. there are common Chairman, Directors between CRA and these entities.
ii. there are common employees .
iii. there are common Chairman, Directors, Employees on the rating committee."

(Emphasis supplied)

23. In the above press release, it is stated that SEBI had approved the Regulations for CRAs. Clause (5) of the press release makes it clear that a CRA cannot rate the securities issued by any borrower, subsidiary or an associate of the promoters of the CRA, if (i) there are common Chairman, Directors between CRA and these entities, (ii) there are common employees, (iii) there are common Chairman, Directors, Employees on the rating committee.

24. Exhibit 'H'[8] is the 72nd report of the Parliamentary Standing Committee on Finance (2018-19). The relevant portion with regard to the restrictions on CRA reads thus:

> *"18. Restriction on CRAS*
>
> *a. CRA to not rate securities issued by it or its promoter.*
>
> ***b. <u>CRA to not rate a security issued by its borrower/ subsidiary/ associate or that of its promoter, if there are common Chairman, Directors or employees between the CRA and such entities.</u>***
>
> *c. No CRA to directly or indirectly, hold 10% or more of shareholding and/or voting rights in any other CRA or have representation on the Board of any other CRA.*
>
> *d. CRAS to segregate to a separate entity, the activities, other than the activity of rating of financial instruments carried under the respective guidelines of a financial sector regulator or any authority as may be specified by the Board."*
>
> *(Emphasis Supplied)*

25. A combined reading of the report of the Parliamentary Standing Committee, SEBI's press release dated 23.06.1999 and Regulation 28V leads us to infer that the legislative intent with regard to Regulation 27 was, the conditions mentioned in clause (i), (ii) and (iii) shall be applicable to Regulation 27(1)(a) and (b) also. In our opinion, this is the harmonious construction of Regulation 27. We say so because, firstly, the purpose and

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[8] Annexed to the memorandum of appeal

intent of restricting a CRA from rating the securities of either a borrower of its promoter or subsidiary of its promoter or an associate of its promoter is to avoid any 'conflict of interest'. Therefore, it would be incongruous to hold that conditions (i), (ii) and (iii) shall be applicable only to Regulation 27(1)(a) and (b). Secondly, in an exactly similar provision i.e. Regulation 28V the conditions are applicable in all three cases.

26. So far as the authority in *Commissioner, Customs, Central Excise and Service Tax, Patna v. Shapoorji Pallonji and Company Private Limited and Others*[9] relied upon by Mr. Rustomjee, we may record that he has placed reliance particularly on para Nos.23 to 28 in the said authority. There can be no exception to the legal proposition that if the meaning is plain and unambiguous, no interpretation is required. Para 27 and 28 in *CCE, Customs & Service Tax v. Shapoorji Pallonji & Co (P) LTD* read thus:

> *"27. In State of W.B. v. Calcutta Municipal Corpn. [1966 SCC OnLine SC 42: (1967) 2 SCR 170], a nine-Judge Bench of this Court, relying upon Craies' On Statute Law (6th Edn.), stated that where the language of a statute is clear, the words are in themselves precise and unambiguous, and a literal reading does not lead to absurd construction, the necessity for employing rules of interpretation disappears and reaches its vanishing point.*
>
> *28. This Court in Union of India v. Ind-Swift Laboratories Ltd. [(2011) 4 SCC 635] , held that harmonious construction is required to be given to a provision only when it is shrouded in ambiguity and lacks clarity, rather than when it is unequivocally clear and unambiguous."*

[9] (2024) 3 SCC 358

27. In our view, para 28 above, is aptly applicable in the facts of this case for the reasons we have recorded hereinabove. There is, indeed ambiguity and lack of clarity in Regulation 27 with regard to the applicability of conditions to clause (a) and (b). As held by us hereinabove, the said conditions shall be applicable to clause (a) and (b) also. Accordingly, we answer the point for consideration in the ***affirmative***.

28. In the result, the following:

ORDER

i. Appeal is ***allowed***. Order dated 29.11.2024 passed by the AO, SEBI is set aside.
ii. Deposit, if any, made by the appellant pursuant to the order dated 23.01.2025 shall be refunded by SEBI.
iii. Pending interlocutory application(s), if any, stand disposed of.
iv. No costs.

Justice P.S. Dinesh Kumar
Presiding Officer

Ms. Meera Swarup
Technical Member

Dr. Dheeraj Bhatnagar
Technical Member

01.09.2026
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